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"SUPPLEMENTING THE WORK OF COST SYSTEM INSTALLATION"

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WITH increased knowledge on the subject of cost finding, there can be no doubt that the work of devising and installing cost systems will measure up to higher standards. This condition will tend towards the more profitable and efficient conduct of business, and the more rapidly this knowledge is disseminated throughout the business world, the earlier its benefits will be obtained. Nowadays, converts to scientific methods of cost finding are not infrequently made of entire branches of industry and the advantages of a uniform cost system to all the manufacturers in a certain line of industry are at once apparent. In order that a general cost system shall prove of greatest value to all concerned, the supervision of its operation subsequent to its installation is a matter of prime consideration, and it is to an extension of this important phase of cost work that this article invites attention.

Any extended revision of an existing cost system, or the installation of a new one, is usually undertaken by a firm of public accountants or industrial engineers engaged for this purpose, rather than by someone connected with the particular business.

At this point is sometimes encountered the first obstacle in the way of a mutually satisfactory termination of the engagement, viz., the non-inclusion in the agreement entered into of a clause whereby the system, once installed, is to be supervised for such a period of time as will insure its meeting the demands made upon it, however exacting these demands may be.

It is mutually in the interest of the firm having the system installed, its employees, and the author of the system to provide for a service supplementing the work of installation, and under no circumstances should work of this sort be undertaken without a provision being made therefor. Unless such supervisory or consulting service is embodied in the original agreement with the client, it has been the writer's experience that the system installation is but half sold.

It is probable that readers of this article who have knowledge of the cost systems installed by some of the pioneers in this field, have seen cases in which the original systems have been entirely discarded because of a lack of knowledge on the part of those in charge of their operation, rather than because of any structural or basic faults in the system as originally devised and installed.

One and probably the main reason why more work supplementing the installation of a cost system is not performed, is that the time necessary to effectively install a good system is longer than clients think should be consumed. Besides, there is usually a desire on the part of the client's clerical staff to assume charge of the system as soon as possible, either to save further expense, or because of the idea that they have mastered the situation

and can carry on the work as originally planned. While such motives are highly commendable, consideration should be given to some of the reasons for not immediately turning over the operation of a cost system to the client's staff upon completion of the work of installation.

If, as sometimes happens, the present or future head of the Cost Department has taken an active part in the work of preparing and installing the new system, it may be permissible to allow him to assume responsibility for its operation when the work of installation is completed. In any other case, it would appear to be more advantageous and productive of better results if the operation of the system were placed in outside hands until it has been thoroughly adjusted to the needs of the particular business. It should be anticipated that conditions frequently arise which call for the most cordial relations between the system expert and the client's staff, to insure the system being given a fair trial; and this co-operation makes easier the revision and changes that are frequently necessary in the system as originally planned.

If the cost system is the first installed in the particular plant, the period of time to be covered by supplementary service should be not less than a full fiscal year.

Most of us who have had experience in devising and installing cost systems realize how appropriate to such work are the words of Adam Smith, wherein he stated "The machines that are first invented to perform any particular movement are always the most complex, and succeeding artists generally discover that with fewer wheels, with fewer principles of motion than had originally been employed, the same effects may be more easily produced."

A case is recalled in which a firm of public accountants had installed a cost system in a specialty manufacturing concern and were continuing to supervise it by members of their staff. The work required ability of a higher order than was recognized by the individuals who were engaged on the supervisory work, and it was not until a cost accountant and system expert, skilled in the particular field of manufacture, was sent to the plant that matters were smoothed out. During a period of about two years he was able to keep the work moving along so satisfactorily that, later, when he established an office of his own, this work followed him with the full consent of his former employers, who had had so much trouble in trying to render satisfactory service, that, as one of the firm members said, "They were glad to get rid of it."

The International Association of Garment Manufacturers has taken the right attitude in providing for a "patrol system for the guidance of those of their organization who install the uniform system which has been outlined for the members of that association.

The failure of a cost system to properly function at some future time does not necessarily mean that it was either faultily designed or improperly installed. Modifications in manufacturing conditions, with no corresponding changes in the methods of cost ascertainment, have been known to cause a cost system to fail of its objective.

It should, therefore, always be the rule that where any pronounced changes are made in the layout of plant, in method of manufacture, or of cost finding, recourse should be had to the firm who installed the system for an opinion as to whether or not any modifications should be made therein, in order that it may continue to produce the best results. It often occurs in such cases, that someone in the client's employ endeavors to change or revise the cost system without comprehending or understanding the system in its entirety. The results are usually most unsatisfactory. The cost of this consulting service would ordinarily be comparatively small; while the knowledge that continued good results could be expected, either as then existing or as subsequently modified, would certainly more than warrant the cost.

There would also be an advantage in having this consulting service at such a time as it would frequently be found that the accountant's experience since installing the system now to be investigated, had qualified him to further extend its usefulness to the business, and, perhaps, reduce the amount of clerical help needed to satisfactorily operate it.

Recently, in making an investigation of the cost records of a long established manufacturing firm whose cost system as originally planned and installed, appeared to fully meet its requirements, it was found that notwithstanding the fact that Manuals of instruction had been issued for the guidance of the Cost and Other Departments, and the work of such departments had been subsequently reviewed and a supplemental report made thereon, that data relating to one of the main divisions of cost were incomplete in essential particulars.

In this case the lack of informative data was a distinct hardship, inasmuch as negotiations for additional capital were under way and the question of costs and profits were important factors to be considered before reaching a decision regarding the proposed financing.

At a recent meeting of the New York Chapter, one of the speakers very appropriately emphasized the fact that it is not enough to sell the system to the executives of the business, but that in proportion as the selling reached downward throughout the entire organization, in just that proportion would the greatest benefits be derived from its use.

An appreciation on the part of the workmen of the value of the Cost System to them as individuals, as well

as its value to the firm, as such, will direct their attention to the need of accuracy in the compilation of original data and meet with hearty response, whereas if the same workmen are not "sold" on the cost system they will never display the same interest in it, and the results will never approximate those obtained under the more nearly ideal conditions.

The statistical data which may be obtained from a well devised and properly kept cost system is one of the points to be carefully worked out. Too great stress cannot be laid upon the value of properly prepared and intelligently used data of this sort. It is difficult to decide which of the three main objects of a cost system, viz: cost finding, reduction in costs and increased efficiency is most advanced through the medium of reliable statistics, but no cost accountant who values his reputation will leave a well devised and properly installed system, even in skilled and friendly hands, until he has prepared therefrom such statistical data as he thinks will be of assistance to the executives in the profitable direction of the business.

Where the plant is a large one, the confidence of the workmen in the cost system can be gained, and then further interest in it stimulated, by the proper use of comparative statistics brought to their attention in ways which they can understand.

Without reliable statistics there is a profound lack of knowledge relating to costs and an ever-present possibility of financial disaster.

It has been stated that nine out of ten failures in business are due to ignorance of actual conditions, which would have been known, and probably avoided, if carefully compiled statistics had been available at regular intervals.

From the standpoint of economy on the part of a firm having a cost system installed, a supplementary service can well be considered. If the original installation has been a satisfactory one, the firm who did the work is in a better position to extend the scope of its usefulness than any other firm would be, since it is quite likely that they have either previously or subsequently had engagements of similar kind wherein they have solved problems of the same sort as those which have since arisen. They can, of course, undertake additional work in connection with a system which they have installed without any loss of time in acquiring a knowledge of its ramifications and this element alone would mean a saving worth considering, to say nothing of the desire to complement, as well as supplement, a service in the interest of their client.

Even in cases where the original installation had not been entirely satisfactory, there would appear to be an advantage in securing the services of the same firm, unless there has been a loss of confidence in their work for some very good reason.

Unless the work to be done in connection with a particular cost job contemplates a supplementary service, there will be no opportunity to correct any errors of principle or practice which have been incorporated therein. This does not refer to debatable

questions of overhead distribution, or what shall be included under that head, but to those broader questions regarding methods of overhead distribution, which are best decided upon after an opportunity has been given to study the results which a new or revised system is showing.

After extended experience in certain field of industry it would be possible for a system expert to devise and put in operation a general system adaptable to the needs of individual cases, but unless such work was subsequently and periodically reviewed, there could be no assurance that it would continue to give satisfactory results.

In many plants the diversity of product is well nigh appalling from a cost standpoint and it requires both an intensive and extensive study of all phases of the manufacturing operations, and of the financial operations as well, in order to decide upon the basic cost methods most likely to furnish the information required. The installation of a cost system in such a case should properly be considered as only the beginning, and the supplementary work as the most necessary and vital.

There is a certain analogy between a new cost system and a new machine which will do more, and more effective work than has heretofore been done in a plant. No factory Manager would allow any mechanical obstacle to stand in the way of the efficient operation of the new machine and no obstacle should be permitted to retard the operation of the cost system and lessen its efficiency. This analogy, however, fails in an essential particular, viz: the machine has maximum possibilities when installed, whereas the cost system has only minimum possibilities at the same time. This fact should not be overlooked and every effort should be put forth to extend the field of usefulness of the cost system. It is surprising to see how much more valuable information can be deduced from reliable cost records and equally surprising to see how many businesses fail to obtain information which would aid in properly conducting them.

It is quite generally the practice of the leading firms to have at least an annual audit of their accounts. This practice is growing and it is not improbable that it will some day be made compulsory.

A brief experience in bankruptcy cases will convince the most skeptical of the desirability of legislation of this sort.

In many cases, however, the causes which contribute most to the failures will be found to have been a lack of knowledge regarding costs, or a reliance upon imperfectly designed or carelessly operated cost and accounting systems.

Lack of system is not always the reason for failure, but, other things being equal, the firm having a good cost system in operation is better off than one not so equipped.

Having once installed a cost system, it should be investigated at regular periods in the same manner as the accounting system is examined when an audit is made.

How frequently this should be done

will necessarily be a matter of opinion, but it is suggested that once each year, at the period of least activity in the cost department, a survey by an outside cost accountant with a written report thereon, would prove of inestimable value to any progressive manufacturing concern.

Bankers will be found to view such reports with special favor, and their submission, along with audit reports in application for credit, would greatly facilitate action thereon. Other things being equal, the firm whose cost system enables it to determine the approximate cost of the articles it manufactures will advance their interests by informing their bankers that the results arrived at by the system in use have been independently verified.

An extended examination of the literature pertaining to cost systems will show that comparatively little attention has been given to the important question of supplementing the work of installation. As an illustration, one standard work on costs, containing upwards of six hundred pages, has one paragraph specifically applicable to this subject, while, according to the index, but three pages are devoted to this subject throughout the entire volume.

The analogy between the machine and the cost system, hereinbefore mentioned, seems particularly appropriate in this connection. There is little need of spending large sums of money on something unless it is to be properly cared for so that its efficiency is at least maintained.

There is another analogy which seems even more appropriate and that is the one between credit data and cost data. Neither can serve to the extent which it should unless it is kept up to date. Only to the extent that they reflect the latest facts pertaining to their respective subjects are they to be relied upon, and a periodical investigation and revision is the surest way to insure this condition.

The writer was privileged to occupy a vantage point in connection with cost work during the recent war and based upon the cost conditions which were observed by him in representative concerns, ventures the opinion that there could be a considerable reduction, both in manufacturing cost, and in the expense of cost ascertainment, if the systems in use were periodically investigated and the recommendations embodied in reports thereon were effectively carried out.

It is submitted that the two principal reasons for the failure to obtain the best results from what appeared to be properly designed and installed cost systems are (1) expansion of the business to include the manufactures of products not originally provided for, and (2) modifications in plant design or methods of manufacture.

In order to meet changed manufacturing conditions, appropriate changes must be made in the methods and records which relate to the determination of costs.

Finally, to borrow an idea from a celebrated Roman statesman, it should be remembered that an adequate, accurate and properly supervised cost system is the corner-stone of an effective manufacturing organization.